

Ipcc Group 1(Account) BASIC

1.What are the issues, with which Accounting Standards deal?

Ans:- Accounting Standards deal with the issues of—

- (i) Recognition of events and transactions in the financial statements,
- (ii) Measurement of these transactions and events,
- (iii) Presentation of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader, and
- (iv) Disclosure requirements which should be there to enable the public at large and the stakeholders and the potential investors in particular, to get an insight into what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions.

2. List the criteria to be applied for rating a non-corporate entity as Level-I entity for the purpose of compliance of Accounting Standards in India.

Ans:- Non-corporate entities which fall in any one or more of the following categories, at the end of the relevant accounting period, are classified as Level I entities:

- (i) Entities whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.
- (ii) Banks (including co-operative banks), financial institutions or entities carrying on insurance business.
- (iii) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees fifty crore in the immediately preceding accounting year.

- (iv) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year.
- (v) Holding and subsidiary entities of any one of the above.

3. List the criteria to be applied for rating a non-corporate entity as Level-II entity for the purpose of compliance of Accounting Standards in India.

Ans:- Non-corporate entities which are not level I entities but fall in any one or more of the following categories are classified as level II entities:

- (i) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees one crore but does not exceed rupees fifty crore in the immediately preceding accounting year.
- (ii) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees one crore but not in excess of rupees ten crore at any time during the immediately preceding accounting year.
- (iii) Holding and subsidiary entities of any one of the above. AS 1 "Disclosure of Accounting Policies"

AS:-1 (Disclosure of Accounting Policies)

1. What are the three fundamental accounting assumptions recognised by Accounting Standard (AS) 1? Briefly describe each one of them.

Ans:- Accounting Standard (AS) 1 recognizes three fundamental accounting assumptions. These are as follows:

- (i) *Going Concern*: The financial statements are normally prepared on the assumption that an enterprise will continue its operations in the

foreseeable future and neither there is intention, nor there is need to materially curtail the scale of operations.

(ii) *Consistency*: The principle of consistency refers to the practice of using same accounting policies for similar transactions in all accounting periods unless the change is required (i) by a statute, (ii) by an accounting standard or (iii) for more appropriate presentation of financial statements.

(iii) *Accrual basis of accounting*: Under this basis of accounting, transactions are recognised as soon as they occur, whether or not cash or cash equivalent is actually received or paid.

2. Mention few areas in which different accounting policies are followed by companies.

Ans:- Following are the examples of the areas in which different accounting policies may be adopted by different enterprises:

- (i) Methods of depreciation, depletion and amortisation.
- (ii) Valuation of inventories.
- (iii) Methods of valuing goodwill.
- (iv) Valuation of investments.

3. Under what circumstances can an enterprise change its accounting policy?

Ans:- A change in accounting policy is made only if the adoption of a different accounting policy is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise. A more appropriate presentation of events or transactions in the financial statements occurs when the new accounting policy results in more relevant or reliable information about the financial position, performance or cash flows of the enterprise.

4. When can a company change its accounting policy?

Ans:- A change in accounting policy should be made in the following conditions:

- (i) If the change is required by some statute or for compliance with an Accounting Standard.
- (ii) Change would result in more appropriate presentation of the financial statement. Change in accounting policy may have a material effect on the items of financial statements. For example, if depreciation method is changed from straight-line method to written-down value method, or if cost formula used for inventory valuation is changed from weighted average to FIFO, or if interest is capitalized which was earlier not in practice, or if proportionate amount of interest is changed to inventory which was earlier not the practice, all these may increase or decrease the net profit. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts. Therefore, it is necessary to quantify the effect of change on financial statement items like assets, liabilities, profit/loss

5. Mention four areas in which different accounting policies are followed by companies.

Ans:- Following are the examples of the areas in which different accounting policies may be adopted by different enterprises:

- (i) Methods of depreciation, depletion and amortisation.
- (ii) Valuation of inventories.
- (iii) Methods of valuing goodwill.
- (iv) Valuation of investments.

6. "Recognizing the need to harmonize the diverse accounting policies and practices, accounting standards are framed." Give examples of areas in which different accounting policies may be adopted by the enterprise.

Ans: The following are examples of the areas in which different accounting policies may be adopted by different enterprise:

- Methods of depreciation, depletion and amortization;
- Valuation of inventories;
- Recognition of profit on long-term contracts;
- Valuation of fixed assets.

As 2 (Valuation of Inventories)

- 1. “In determining the cost of inventories, it is appropriate to exclude certain costs and recognize them as expenses in the period in which they are incurred”. Provide examples of such costs as per AS 2 ‘Valuation of Inventories’**

Ans:- As per AS-2 'Valuation of Inventories', certain cost are excluded from the cost of the inventories and are recognised as expenses in the period in which incurred. Examples of such costs are:

- (a) Abnormal amounts of wasted materials, labour or other production costs.
- (b) Storage costs unless those costs are necessary in the production process prior to a further production stage.
- (c) Administrative overheads that do not contribute to bringing the inventories to their present location and condition; and
- (d) Selling and distribution costs.

AS 7 (Construction Contract)

- 1. What are the disclosure requirements of AS-7 (Revised)?**

Ans:- According to paragraphs 38, 39 and 41 of AS 7, an enterprise should disclose:

- (a) the amount of contract revenue recognized as revenue in the period;
- (b) the methods used to determine the contract revenue recognized in the period; and
- (c) the methods used to determine the stage of completion of contracts in progress.

In case of contract still in progress the following disclosures are required at the reporting date:

- (a) the aggregate amount of costs incurred and recognised profits (less recognised losses) upto the reporting date;
- (b) the amount of advances received; and
- (c) the amount of retentions.

An enterprise should also present:

- (a) the gross amount due from customers for contract work as an asset; and
- (b) the gross amount due to customers for contract work as a liability.

2. Explain contract costs as per Accounting Standard-7 related to 'Construction Contracts'.

Ans:- As per para 15 of AS 7 "Construction Contracts (revised 2002)", contract cost should comprise:

- (a) Costs that relate directly to the specific contract;
- (b) costs that are attributable to contract activity in general and can be allocated to the contract; and
- (c) such other costs as are specifically chargeable to the customer under the terms of the contract.

AS 9 (Revenue Recognition)

1. According to Accounting Standard 9, when revenue from sales should be recognised?

Ans:- As per para 11 of AS 9 'Revenue Recognition', revenue from sales should be recognised only when requirements as to performance are satisfied provided that at the time of performance it is not unreasonable to expect ultimate collection. These requirements can be given as follows:

- (i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
- (ii) no significant uncertainty exists regarding the amount of consideration that will be derived from the sale of the goods.

AS 10 (Property,Plant & Equipment)

1. Explain the 'Accounting of Revaluation of Assets' with reference to AS 10.

Ans:- As per Para 30 of AS 10 "Accounting for Fixed Assets", an increase in net book value arising on revaluation of fixed assets should be credited to owner's interests under the head of 'revaluation reserve, except that, to the extent that such increase is related to and not greater than a decrease arising on revaluation previously recorded as a charge to the profit and loss statement, it may be credited to the profit and loss statement. A decrease in net book value arising on revaluation of fixed assets is charged directly to profit and loss statement except that to the extent such a decrease is related to an increase which was previously recorded as a credit to revaluation reserve and which has not been subsequently reversed or utilized, it may be charged directly to that account.

2. Explain the disclosure requirement for fixed assets as per AS 10.

Ans:- As per para 39 of AS 10 "Accounting for Fixed Assets", following information should be disclosed in the financial statements:

1. Gross and net book values of fixed assets at the beginning and at the end of an accounting period showing additions, disposals, acquisitions and other movements.
2. Expenditure incurred on account of fixed assets in the course of construction or acquisition; and
3. Revalued amounts substituted for historical costs of fixed assets, the method adopted to compute the revalued amounts, the nature of indices used, the year of any appraisal made, and whether an external value was involved, in case where fixed assets are stated at revalued amounts.

AS 13 (Accounting For Investment)

1. Briefly explain disclosure requirements for Investments as per AS-13.

Ans:- The disclosure requirements as per para 35 of AS 13 are as follows:

- (i) Accounting policies followed for valuation of investments.

- (ii) Classification of investment into current and long term in addition to classification as per Schedule VI of Companies Act in case of company.
- (iii) The amount included in profit and loss statements for
 - (a) Interest, dividends and rentals for long term and current investments, disclosing therein gross income and tax deducted at source thereon;
 - (b) Profits and losses on disposal of current investment and changes in carrying amount of such investments;
 - (c) Profits and losses and disposal of long term investments and changes in carrying amount of investments.
- (iv) Aggregate amount of quoted and unquoted investments, giving the aggregate market value of quoted investments;
- (v) Any significant restrictions on investments like minimum holding period for sale/disposal, utilisation of sale proceeds or non-remittance of sale proceeds of investment held outside India.
- (vi) Other disclosures required by the relevant statute governing the enterprises.

2. Mention two categories of investments defined by AS 13 and also state their valuation principles.

Ans:- As per para 7 and 8 of AS 13 on 'Accounting for Investments', there are two categories of investments, viz., Current Investments and Long-Term Investments. According to para 14 of the standard, the carrying amount for current investments is the lower of cost and fair value whereas para 17 states that Long Term Investments are valued at cost less permanent diminutions in value of investment. For current investments, para 16 of the Standard states that, any reduction to fair value and any reversals of such reductions are included in the profit and loss statement.

AS14 (ACCOUNTING FOR AMALGAMATIONS)

1. Briefly describe the disclosure requirements for amalgamation including additional disclosure, if any, for different methods of amalgamation as per AS 14.

Or

What disclosures should be made in the first financial statements following the amalgamation?

Ans:- The disclosure requirements for amalgamations have been prescribed in paragraphs 43 to 46 of AS 14 on Accounting for Amalgamation. For all amalgamations, the following disclosures should be made in the first financial statements following the amalgamation:

- (a) names and general nature of business of the amalgamating companies;
- (b) the effective date of amalgamation for accounting purpose;
- (c) the method of accounting used to reflect the amalgamation; and
- (d) particulars of the scheme sanctioned under a statute.

For amalgamations accounted under the pooling of interests method, the following additional disclosures should be made in the first financial statements following the amalgamation:

- (a) description and number of shares issued, together with the percentage of each company's equity shares exchanged to effect the amalgamation; and
- (b) the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof.

For amalgamations, accounted under the purchase method, the following additional disclosures should be made in the first financial statements following the amalgamation;

- (a) consideration for the amalgamation and a description of the consideration paid or contingently payable; and
- (b) the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof including the period of amortisation of any goodwill arising on amalgamation.

2. Briefly explain the methods of accounting for amalgamation as per Accounting Standard-14

Ans:- The disclosure requirements as per para 35 of AS 13 are as follows:

- (i) Accounting policies followed for valuation of investments.

- (ii) Classification of investment into current and long term in addition to classification as per Schedule VI of Companies Act in case of company.
- (iii) The amount included in profit and loss statements for
 - (a) Interest, dividends and rentals for long term and current investments, disclosing therein gross income and tax deducted at source thereon;
 - (b) Profits and losses on disposal of current investment and changes in carrying amount of such investments;
 - (c) Profits and losses and disposal of long term investments and changes in carrying amount of investments.
- (iv) Aggregate amount of quoted and unquoted investments, giving the aggregate market value of quoted investments;
- (v) Any significant restrictions on investments like minimum holding period for sale/disposal, utilisation of sale proceeds or non-remittance of sale proceeds of investment held outside India.
- (vi) Other disclosures required by the relevant statute governing the enterprises.

3. List the conditions to be fulfilled as per Accounting Standard 14 for an amalgamation to be in the nature of merger, in the case of companies.

Ans:- An amalgamation should be considered to be an amalgamation in the nature of merger if the following conditions are satisfied:

- (i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.
- (ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.
- (iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the

transferee company, except that cash may be paid in respect of any fractional shares.

- (iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.
- (v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

4. What are the conditions, which, according to AS 14 on Accounting for Amalgamations, must be satisfied for an amalgamation in the nature of merger?

Ans:- According to AS 14 “Accounting for Amalgamations”, Amalgamation in the nature of merger is an amalgamation which satisfies all the following conditions:

- (i) All the assets and liabilities of the transferor company become after amalgamation, the assets and liabilities of the transferee company.
- (ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein. Immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.
- (iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.
- (iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.
- (v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

5. Distinguish between (i) the pooling of interests method and (ii) the purchase method of recording transactions relating to amalgamation.

Ans:- (i) The Pooling of Interest Method: Under this method, the assets, liabilities and reserves of the transferor company are recorded by the transferee company at their existing carrying amounts (after making the necessary adjustments).

If at the time of amalgamation, the transferor and the transferee companies have conflicting accounting policies, a uniform set of accounting policies is adopted following the amalgamation. The effects on the financial statements of any changes in accounting policies are reported in accordance with AS 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies'.

(ii) The Purchase Method: Under the purchase method, the transferee company accounts for the amalgamation either by incorporating the assets and liabilities at their existing carrying amounts or by allocating the consideration to individual identifiable assets and liabilities of the transferor company on the basis of their fair values at the date of amalgamation. The identifiable assets and liabilities may include assets and liabilities not recorded in the financial statements of the transferor company.

Where assets and liabilities are restated on the basis of their fair values, the determination of fair values may be influenced by the intentions of the transferee company.

6 . Briefly explain the types of Amalgamations?

Ans:- As per AS 14, 'Accounting for Amalgamations' there are two types of amalgamation. In first type of amalgamation there is a genuine pooling not merely of assets and liabilities of the amalgamating companies but also of the shareholders' interests and of the businesses of the companies. Such amalgamations are amalgamations which are in the nature of 'merger' and the accounting treatment of such amalgamations should ensure that the resultant figures of assets, liabilities, capital and reserves more or less represent the sum of the relevant figures of the amalgamating companies.

In the second category are those amalgamations which are in effect a mode by which one company acquires another company and, as a consequence, the share holders of the company which is acquired normally do not continue to have a proportionate share in the equity of the combined

company, or the business of the company which is acquired is not intended to be continued. Such amalgamations are amalgamations in the nature of 'purchase'.

Note: It is possible to answer this question by specifying all the conditions to be satisfied for an amalgamation to be an amalgamation in the nature of merger. The amalgamation would be an amalgamation in the nature of purchase if any one or more of the said conditions are not satisfied.

AS 13 (CASH FLOW)

1. What are the main features of the Cash Flow Statement? Explain with special reference to AS 3.

Ans:- According to AS 3 (Revised) on "Cash Flow Statement", cash flow statement deals with the provision of information about the historical changes in cash and cash equivalents of an enterprise during the given period from operating, investing and financing activities. Cash flows from operating activities can be reported using either

- (a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or
- (b) the indirect method, whereby net profit or loss is adjusted for the effects of transactions of non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

As per para 42 of AS 3 (Revised), an enterprise should disclose the components of cash and cash equivalents and should present a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the balance sheet.

A cash flow statement when used in conjunction with the other financial statements, provides information that enables users to evaluate the changes in net assets of an enterprise, its financial structure (including its liquidity and solvency), and its ability to affect the amount and timing of cash flows in order to adapt to changing circumstances and opportunities. This statement also enhances the comparability of the reporting of operating performance by different enterprises because it eliminates the effects of using different accounting treatments for the same transactions and events.